

Message Text

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PAGE 01 HONG K 03071 291342 Z

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FOR EA/ PRCM

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FOLLOWING MATERIAL REGARDING CURRENT POLITICAL AND ECONOMIC
DEVELOPMENTS IN PRC IS SUBMITTED FOR POSSIBLE INCORPORATION
INTO BRIEFING BOOK FOR DEPUTY SECRETARY AS REQUESTED REFTEL.

THE ECONOMY OF THE PEOPLE' S REPUBLIC OF CHINA

GENERAL

1. NOT THE ORDINARY UNDERDEVELOPED COUNTRY, THE PRC IS
NEVERTHELESS HEAVILY DEPENDENT ON ITS AGRICULTURE. THE
AGRICULTURAL SECTOR ACCOUNTS FOR 80 PERCENT OF THE POPULATION
AND PERHAPS TWO- THIRDS OF ECONOMIC ACTIVITY. WEATHER REMAINS
THE MAJOR FACTOR DETERMINING WHETHER IT' S A GOOD YEAR OR NOT.
INDUSTRY RANGES FROM HIGHLY SOPHISTICATED PLANTS CAPABLE OF
PRODUCING ADVANCED WEAPONRY THROUGH THE USUAL HEAVY AND LIGHT
INDUSTRIAL PLANTS TO SMALL AND MEDIUM SIZED FACTORIES THAT,
USING A LARGE INPUT OF HUMAN LABOR, PRODUCE TOOLS AND SMALL
MOTORS AND GENERATORS FOR LOCAL USE.

AGRICULTURE

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CONFIDENTIAL

PAGE 02 HONG K 03071 291342 Z

2. IN 1972 THE WEATHER WAS BAD, THE WORST IN DECADES, AND HARVESTS GENERALLY FELL OFF. ACCORDING TO PEKING, GRAIN OUTPUT WAS ABOUT 240 MILLION METRIC TONS (MT), EQUAL TO 1970 WHICH WAS CONSIDERED A " GOOD" YEAR, BUT DOWN 2.4 PERCENT FROM 1971. PREMIER CHOU EN- LAI ONCE SAID THE DROPOFF WAS FOUR PERCENT; WE SUSPECT IT MAY BE EVEN LARGER THAN THAT BUT WE DO NOT KNOW HOW MUCH. (AN ADDITIONAL FACTOR IS THAT POPULATION HAS GROWN BY SOME 30 MILLION SINCE 1970 .) INDUSTRIAL CROPS WERE MIXED, WITH COTTON AND PEANUTS BEING OFFICIAL DESCRIBED AS " SLIGHTLY" BELOW 1971, AND WE NOW THINK THE COTTON CROP MAY HAVE DECLINED BY TEN PERCENT OR SO. ALSO THE LACK OF A NATIONWIDE CLAIM FOR LIVESTOCK PRODUCTION SUGGESTS THERE WAS LITTLE OR NO INCREASE THERE. THUS, THERE APPEARS TO HAVE BEEN LITTLE IF ANY GROWTH IN AGRICULTURAL OUTPUT. PERHAPS AS A CONSEQUENCE, A PEOPLE' S DAILY ARTICLE (JANUARY 24) SIGNALLED AN ALMOST COMPLETE RETURN TO PRE- CULTURAL REVOLUTION POLICIES OF USING MATERIAL INCENTIVES AND PRICE VARIATIONS TO SPUR PRODUCTION IN BOTH INDUSTRY AND AGRICULTURE, BUT ESPECIALLY THE LATTER.

INDUSTRY

3. IN 1972 CRUDE STEEL OUTPUT, A MAJOR INDICATOR, ROSE BY 9.5 PERCENT TO 23 MILLION MT, I. E. AT ABOUT HALF THE 18 PERCENT RATE OF 1971. CRUDE OIL OUTPUT INCREASED BY 16 PERCENT (TO ABOUT A CLAIMED 29.6 MILLION MT), COMPARED WITH A 28 PERCENT INCREASE IN 1971 . REFINED PRODUCT GREW BY ONLY FIVE PERCENT IN 1972 COMPARED WITH 16 PERCENT IN 1971.

4. PEKING HAS MADE NO TOTAL INDUSTRIAL OUTPUT CLAIM AS YET, AND WE TAKE THAT TO BE A SIGN THAT PERFORMANCE IS NOTHING TO BOAST ABOUT. WHILE IT IS NOT POSSIBLE TO PUT TOGETHER AN ACCURATE INDEX, THE AVAILABLE CLAIMS AND OTHER EVIDENCE SUGGEST AN INDUSTRIAL GROWTH RATE ON THE ORDER OF HALF THAT OF 1971' S TWELVE PERCENT, WITH LIGHT INDUSTRY PROBABLY DOING SOMEWHAT BETTER THAN THAT.

FOREIGN TRADE

5. DURING 1972 THE PRC DISPLAYED CONTINUALLY INCREASING INTEREST IN FOREIGN ECONOMIC DEALINGS AND TRADE. IMPORTS OF FOREIGN TECHNOLOGY ARE ON THE RISE, AND IMPORTS OF COMPLETE PLANTS HAVE STARTED AGAIN, ALL OF WHICH BESPEAKS A GREATER EMPHASIS ON THE CONFIDENTIAL

CONFIDENTIAL

PAGE 03 HONG K 03071 291342 Z

MODERN SECTOR OF INDUSTRY. TO PAY FOR THESE IMPORTS THE PRC

HAS EMBARKED ON A DRIVE TO EXPAND ITS EXPORT EARNINGS BY RAISING ITS PRICES CLOSER TO WORLD MARKET LEVELS, IMPROVING QUALITY AND INCREASING QUANTITY.

6. TO LESSEN THE IMMEDIATE IMPACT OF GREATER IMPORTS IT HAS MADE A SIGNIFICANT CHANGE IN POLICY AND HAS BEGUN TO NEGOTIATE FOREIGN CREDITS-- EUPHEMISTICALLY CALLED " DEFERRED PAYMENTS"-- AS PART OF ITS WHOLE PLANT DEALS;

7. IN 1971 THE PRC' S TWO- WAY TRADE TOTALED SOME US\$4.6 BILLION AND WAS ROUGHLY EVENLY BALANCED BETWEEN EXPORTS AND IMPORTS. AFTER JAPAN, HONG KONG WAS THE PRC' S SECOND LARGEST TRADING PARTNER AND ITS LARGEST SINGLE SOURCE OF FOREIGN EXCHANGE EARNINGS. IN 1972 PRC EXPORTS MAY BE UP 15 TO 20 PERCENT, WITH TWO- WAY TRADE REACHING ABOUT US\$5 BILLION. THE GENERAL DIRECTION OF TRADE AND ITS COMPOSITION REMAIN ROUGHLY SIMILAR TO 1971.

8. A NOTABLE EXCEPTION TO THE PATTERN IS U. S.- PRC TRADE WHICH REACHED OVER US\$90 MILLION IN 1972. (THE PRC' S SIZEABLE AIRCRAFT PURCHASE CONTRACTS WILL NOT RALLY BE REFLECTED IN THE 1972 STATISTICS BECAUSE MOST OF THE AIRCRAFT WILL NOT BE DELIVERED UNTIL 1973-74).
OSBORN

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